

BHUSHAN STEEL LTD.

BUY
CMP Rs1,335
TP Rs1,471

22 Oct 2009

Bhushan Steel's Q2FY10 results were above expectations as sales volumes grew ~16% to 339.5k mt. This coupled with better than expected realisations arrested the fall in net sales to 14% at Rs13bn. Operating profit rose 2.6% on account of lower raw material costs. Higher other income coupled with lower capital charges led to net profit of Rs1.9bn (+32% YoY).

Robust volume growth: Sales volumes in the flat product category recorded a growth of 32% to 246k mt driven by the buoyancy in the auto sector. However, long products sales declined by 13% to 93.5k mt due to the monsoon effect on construction and infrastructure activities. Overall, sales volumes rose by 16% to 339.5k mt.

Operating profits rise marginally: Lower input costs and higher volumes negated the effect of lower realisations. Consequently, operating profit rose 2.6% to Rs3.4bn, causing OPM expansion of 436bps to 26.4%.

Expansion plans: The ongoing Rs52bn phase-II of the envisaged capex consisting of a Slab Mill, HRC and Blast furnace facilities is scheduled to get fully commissioned by end of Dec'09. Post completion of phase-II, BSL will start implementing phase-III to take capacity to ~5 mn mt by Oct'12.

VALUATIONS AND RECOMMENDATION

Bhushan Steel currently trades at a P/E of 6.2x its FY11E EPS of Rs214.1. Considering the stellar performance in H1FY10 and the volume growth to follow post commissioning of phase-II, we have upgraded our estimates for net profits in FY10 and FY11 by 38% and 28% respectively. Hence, we upgrade our recommendation to 'BUY' (from HOLD) with a revised price target of Rs1,471 (6x FY11E EV/EBITDA). However, any delay in the commissioning of phase-II shall have a negative impact on our estimates.

KEY FINANCIALS		Rs mn				
	FY07	FY08	FY09	FY10E	FY11E	
Net Sales	38,377	42,053	49,575	61,015	72,239	
YoY Gr. (%)	37.4	9.6	17.9	23.1	18.4	
Op. Profits	6,281	8,354	10,293	16,525	22,161	
OPM (%)	16.4	19.9	20.8	27.1	30.7	
Adj. Net Profits	3,133	4,237	4,213	7,421	9,095	
YoY Gr. (%)	102.8	35.3	(0.6)	76.2	22.5	
KEY RATIOS						
Dil. EPS (Rs)	73.8	99.8	99.2	174.7	214.1	
RoCE (%)	20.5	23.9	25.7	18.5	15.7	
RoE (%)	29.7	29.8	23.0	31.0	28.5	
P/E	18.1	13.4	13.5	7.6	6.2	
EV/Sales	2.3	2.7	2.7	2.0	1.8	
EV/EBITDA	14.0	13.5	13.1	7.6	5.7	

Pawan Burde +91-22-6618 6381
pawan.burde@pinc.co.in

Faisal Memon +91-22-6618 6389
faisalm@pinc.co.in

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-09	Jun-09	Sep-09
Net Sales	11,200	13,047	12,985
YoY Gr. (%)	(7.9)	(1.1)	(14.3)
Op. Profits	2,632	2,969	3,428
OPM (%)	23.5	22.8	26.4
Adj. Net Profits	1,164	1,719	1,892
YoY Gr. (%)	(21.1)	29.5	32.3

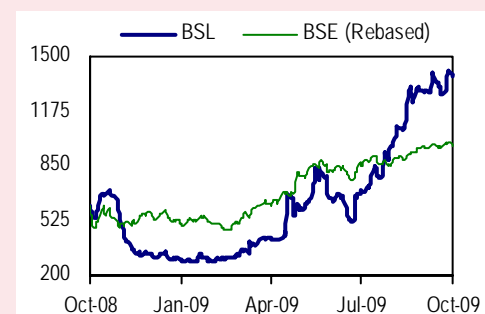
STOCK DATA

Market Cap	Rs56.7bn.
Book Value per share	Rs479
Eq Shares O/S (F.V. Rs10)	42.5mn.
Free Float	29.2%
Avg Traded Value (6 mnths)	Rs335mn
52 week High/Low	Rs1149/260
Bloomberg Code	BHUSIN
Reuters Code	BSSL.BO

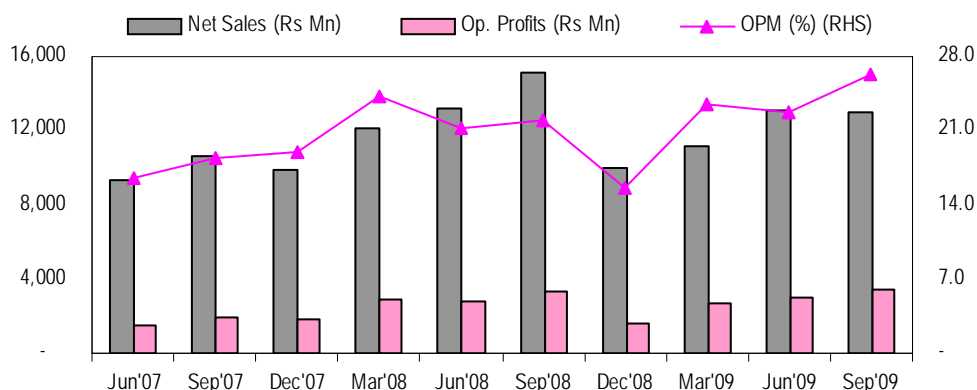
PERFORMANCE (%)

	1M	3M	12M
Absolute	6.7	88.5	125.5
Relative	5.9	69.9	41.7

RELATIVE PERFORMANCE



Bhushan Steel's Quarterly performance chart



Source: Company

BSL's yearly performance

	FY09	FY08	FY07	FY06
Sales Volume ('000 MT)	1,117.0	1,158.3	1,037.1	801.6
Export Vol. ('000 MT)	281.1	315.6	369.2	303.8
Domestic Vol. (MT)	836.0	842.8	667.9	497.8
Avg Gross Realisation (Rs'000/MT)	48.4	40.3	40.5	38.3
Avg Net Realisation (Rs'000/MT)	44.4	36.3	37.0	34.8
OP per ton sold (Rs'000/MT)	9.3	7.2	6.1	4.9

Source: Company

Q2FY10 volume details

	Production in '000 MT				Sales in '000 MT			
	Q2FY10	Q2FY09	YoY(%)	QoQ(%)	Q2FY10	Q2FY09	YoY(%)	QoQ(%)
Cold Rolled	264.4	192.5	37.4	(6.1)	116.1	90.2	28.8	(2.4)
Galvanized Steel	119.8	87.9	36.2	(8.0)	103.5	71.6	44.5	(1.6)
H&T	2.4	2.3	3.9	26.2	2.4	2.4	0.3	20.7
HTSS	1.4	2.6	(45.6)	8.4	1.3	2.7	(53.7)	(14.6)
Colour Coating	23.3	19.4	20.0	(3.4)	22.8	19.0	20.0	(1.3)
FLAT PRODUCTS	411.3	304.8	35.0	(6.3)	246.0	185.9	32.3	(1.8)
Billets	60.0	72.2	(16.9)	(24.9)	58.0	76.3	(24.1)	(17.6)
Sponge Iron	78.3	81.1	(3.5)	(24.2)	9.7	11.8	(18.1)	(21.9)
Wire Rods	9.6	11.1	(12.9)	(25.0)	1.5	0.0	24,350.0	-
Tube & Shutters	24.6	21.5	14.1	4.1	24.1	18.6	30.0	3.6
Formed Sections	0.2	0.2	26.8	(20.6)	0.2	0.2	29.4	(10.7)
LONG PRODUCTS	172.7	186.0	(7.2)	(21.5)	93.5	106.9	(12.6)	(15.4)
Total	584.0	490.8	19.0	(11.4)	339.5	292.8	15.9	(6.0)
Others	-	-	-	-	-	-	-	-
Total	584.0	490.8	19.0	(11.4)	339.5	292.8	15.9	(6.0)
Export Vol.	-	-	-	-	87.5	104.1	(15.9)	84.0
Domestic Vol.	-	-	-	-	252.0	188.8	33.5	(19.6)

Source: Company

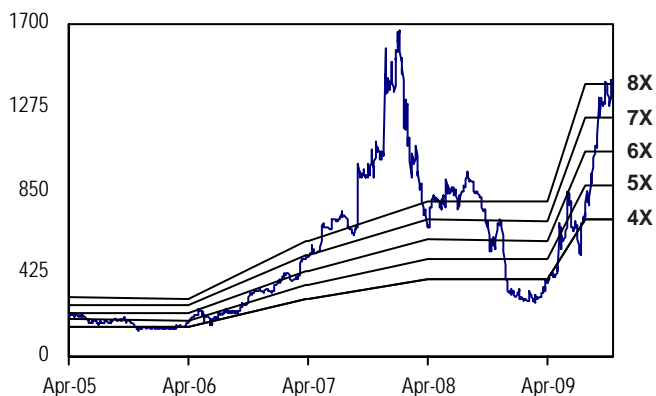
Income Statement	FY07	FY08	FY09	FY10E	FY11E
Net sales	38,377	42,053	49,575	61,015	72,239
Growth (%)	37.4	9.6	17.9	23.1	18.4
Operating Profit	6,281	8,354	10,293	16,525	22,161
Other operating income	-	-	-	-	-
EBITDA	6,281	8,354	10,293	16,525	22,161
Growth (%)	58.6	33.0	23.2	60.6	34.7
Depreciation	2,089	2,114	2,344	4,891	6,205
Other Income	304	520	181	1,000	1,000
EBIT	4,496	6,759	8,129	12,634	16,956
Interest Paid	773	1,370	2,521	2,739	3,963
PBT (before E/o items)	3,724	5,389	5,608	9,895	12,992
Tax Provision	591	1,152	1,395	2,474	3,898
E/o loss/(income)	-	-	-	-	-
Net Profit	3,133	4,237	4,213	7,421	9,095
Adjusted Net Profit	3,133	4,237	4,213	7,421	9,095
Growth (%)	102.8	35.3	(0.6)	76.2	22.5
Diluted EPS (Rs)	73.8	99.8	99.2	174.7	214.1
Diluted EPS Growth (%)	97.1	35.3	(0.6)	76.2	22.5

Cash Flow Statement	FY07	FY08	FY09	FY10E	FY11E
Pre-tax profit	3,724	5,389	5,608	9,895	12,992
Depreciation	2,089	2,114	2,344	4,891	6,205
Total Tax Paid	(407)	(633)	(460)	(1,974)	(3,398)
Chg in working capital	(2,304)	(3,725)	(4,683)	(1,556)	(2,518)
Other operating activities	429	1,239	2,559	1,739	2,963
Cash flow from oper (a)	3,531	4,386	5,368	12,995	16,244
Capital Expenditure	(13,232)	(24,150)	(17,702)	(999)	(15,000)
Chg in invetments	(10)	(365)	(491)	-	-
Other investing activities	259	175	132	1,000	1,000
Cash flow from inv.(b)	(12,983)	(24,340)	(18,061)	1	(14,000)
Free cash flow (a+b)	(9,452)	(19,955)	(12,694)	12,997	-
Equity raised/(repaid)	204	-	-	-	-
Debt raised/(repaid)	12,058	24,295	19,560	(2,400)	1,000
Change in minority interest	-	-	-	-	-
Dividend (incl. Tax)	(118)	(111)	(84)	(177)	(496)
Other financing activities	(2,506)	(4,954)	(5,815)	(2,739)	(3,963)
Cash flow from fin (c)	9,639	19,229	13,661	(5,316)	(3,459)
Net chg in cash (a+b+c)	186	(725)	967	7,680	(1,214)

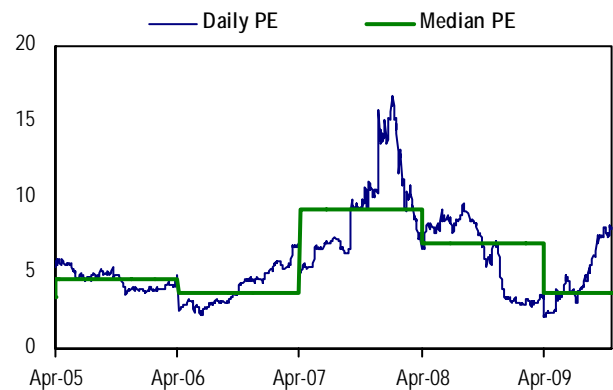
Balance Sheet	FY07	FY08	FY09	FY10E	FY11E
Equity Share Capital	425	425	425	425	425
Reserves & surplus	11,720	15,828	19,917	27,161	35,760
Shareholders' funds	12,145	16,253	20,342	27,586	36,185
Minorities interests	-	-	-	-	-
Total Debt	32,420	57,181	80,662	78,262	79,262
Capital Employed	44,564	73,435	105,009	109,853	119,452
Net fixed assets	36,156	63,270	92,861	88,969	97,764
Cash & Cash Eq.	1,001	276	1,244	8,924	7,709
Net Other current assets	8,437	11,271	12,290	13,846	16,365
Investments	209	585	1,077	1,077	1,077
Net Deferred tax Assets	(1,237)	(1,967)	(2,463)	(2,963)	(3,463)
Total Assets	44,565	73,435	105,009	109,853	119,452

Key Ratios	FY07	FY08	FY09	FY10E	FY11E
OPM (%)	16.4	19.9	20.8	27.1	30.7
Net Margin (%)	8.2	10.1	8.5	12.2	12.6
Yield (%)	0.2	0.2	0.2	0.2	0.7
Net debt/Equity (x)	2.6	3.5	3.9	2.5	2.0
Working Capital Days	39.4	41.5	41.6	33.2	40.0
ROCE (%)	20.5	23.9	25.7	18.5	15.7
RoE (%)	29.7	29.8	23.0	31.0	28.5
EV/Net Sales (x)	2.3	2.7	2.7	2.0	1.8
EV/EBITDA (x)	14.0	13.5	13.1	7.6	5.7
PER (x)	18.1	13.4	13.5	7.6	6.2
PCE (x)	10.9	8.9	8.6	4.6	3.7
Price/BV (x)	4.7	3.5	2.8	2.1	1.6

P/E Band



Median PE v/s Daily PE



T E A M**EQUITY DESK**

Gealgeo V. Alankara	Head - Institutional Sales	<i>alankara@pinc.co.in</i>	91-22-6618 6466
Sailav Kaji	Head Derivatives & Strategist	<i>sailavk@pinc.co.in</i>	91-22-6618 6344

TECHNICAL ANALYST

Sadanand Raje		<i>sadanand.raje@pinc.co.in</i>	91-22-6618 6366
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SALES

Anil Chaurasia		<i>anil.chaurasia@pinc.co.in</i>	91-22-6618 6483
Alok Doshi		<i>adoshi@pinc.co.in</i>	91-22-6618 6484
Sundeep Bhat		<i>sundeepb@pinc.co.in</i>	91-22-6618 6486
Gagan Borana		<i>gagan.borana@pinc.co.in</i>	91-22-6618 6485

DEALING

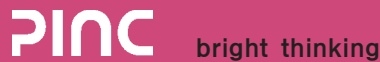
Amar Margaje		<i>amar.margaje@pinc.co.in</i>	91-22-6618 6327
Ashok Savla		<i>ashok.savla@pinc.co.in</i>	91-22-6618 6400
Raju Bhavsar		<i>rajub@pinc.co.in</i>	91-22-6618 6301
Manoj Parmar		<i>manojp@pinc.co.in</i>	91-22-6618 6326
Hasmukh D. Prajapati		<i>hasmukhp@pinc.co.in</i>	91-22-6618 6325
Pratiksha Shah		<i>pratikshas@pinc.co.in</i>	91-22-6618 6329

DIRECTORS

Gaurang Gandhi		<i>gaurangg@pinc.co.in</i>	91-22-6618 6400
Hemang Gandhi		<i>hemangg@pinc.co.in</i>	91-22-6618 6400
Ketan Gandhi		<i>ketang@pinc.co.in</i>	91-22-6618 6400

COMPLIANCE

Rakesh Bhatia	Head Compliance	<i>rakeshb@pinc.co.in</i>	91-22-6618 6400
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